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ENRON ALL-EMPLOYEE MEETING

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Part I

Tape No. 833

[TRANSCRIPT PREPARED FROM A TAPE RECORDING.]

This transcript is the original transcript from Miller Reporting, except for the following clarifications and corrections made by the minority staff of the Committee on Government Reform: (1) pagination was added; (2) speaker identities were added where omitted or incorrectly identified; (3) misspellings of employee and project names were corrected; and (4) miscellaneous errors were corrected. Any corrections of omissions, misspellings, or errors are designated in **bold** type.

KENNETH LAY, JEFFREY SKILLING, AND JOE SUTTON

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[Side 1 of Tape No. 833 begins.]

MR. LAY: For those of you that are joining us by way of Internet, because this is being screened to a number of our locations around the world today, but Jeff and Joe and I are here in London today. This, I guess, will be the first time we've had an all-employee meeting, other than just a London employee meeting in London, and certainly delighted that we can bring you the employee meeting from here today.

And this is being screened, I think, in addition to other locations here in London. We couldn't find a place big enough to bring in all the employees today. So we've got various places around this building and elsewhere.

We are also screening to Houston, of course, Omaha, Portland, Calgary, New York, Stockholm, Frankfort, Amsterdam, Oslo, Sao Paulo, Buenos Aires, and Rio, at least those locations. There may be other locations that I don't have listed here, but we think this is, first of all, an interesting experiment and I hope it is working well for all of you out there. But, secondly, it would be our intent, again, to the extent that it can be arranged, that maybe at least one of our employee meetings each year will be from one of our international locations. Of course, we continue to grow these locations tremendously.

Let me see if this will work. Hey, it does.

Today, we are going to cover, really, three different subjects, the financial performance and, of course, growth in the company, which I will cover, and then we are going to hit some of the key operating highlights in the company, as well as our overall global strategy. And then, finally, we are going to hit this excellence through communications results and talk a little bit about both our challenges there, but also our opportunities as we try to become even better at communicating throughout the company, throughout the world.

Just a few of the highlights for 1999. And let me say 1999 was an outstanding year for Enron, another outstanding year for Enron.

In our transportation and distribution group, again, continuing to provide us very consistent earnings and cash-flow growth and, of course, good return on equity, particularly from the pipeline group, and, of course, continuing to find places where we can, in fact, grow that business going forward.

Now, as most of you know, maybe all of you know, we have decided to sell Portland General not because it's not a good company. It's a great company, but, increasingly, it is not as necessary to own a utility or not need to. We do not need to own a utility in order to do our other businesses, and we need to find ways to redeploy some of this capital into some of our other businesses which are growing so rapidly.

And we have reached agreement with C.R. Pacific Resources to sell them Portland General, and that transaction should get regulatory approval and flow sometime second half of this year.

Our wholesale energy operations and services, which now is our single biggest profit center in the company, another outstanding year, and I am going to share with you a number of--a couple of slides later on with that, on that business, to further underscore that point.

But we did have a good year. Our market share continues to increase in North America. We had a good starting year. For the continental business here in Europe, as that market for electricity began to open up and good success made there over the last 12 months, we had a number of developing markets. We had a good start, but, again, overall, just a really good strong year for that business.

Our retail energy services--and each of these, you are going to hear a little bit more about later, but, certainly, 1999 was a year of strong contracting growth, which you will see the numbers here in a minute. There is no doubt, we are the leader in this business today by a big margin. We don't even see who, in fact, could be considered to be in second place right now.

And, of course, they did go with earnings positive in the fourth quarter of this year, and we expect to have significant growth and earnings, positive earnings there, this business calendar year.

And we are now beginning to take that whole concept of energy outsourcing and energy services to the international markets, first here in Europe, but making plans to move it to other international markets throughout this year and in years to come.

And, of course, broadband services is our newest business, and Jeff will talk quite a bit about that a little later, too, but 1999 was the year when we really brought the strategy together. We brought the talent together. We got it focused, and we now have a game plan that is, in fact, very exciting for the company going forward. Jeff will talk a lot about that a little later on, but this is a business with enormous potential as we look forward.

If we look at the numbers for 1999, again, all of the businesses had good positive growth, as you can see down through the line, but, again, the wholesale energy operations, a 36-percent increase in income before interest and taxes, and, of course, overall, last year, we had about an 18-percent in earnings per share, which is a good year, with about a 37-percent increase in total net income. Again, we had more shares outstanding last year, so somewhat less growth in earnings per share, but I think by any financial measure, a very, very strong year.

If we look back over the last decade, again, phenomenal growth, particularly phenomenal growth for what is primarily an energy company. You go back and look at total assets, up almost fourfold during the decade of the '90s, from about $9 billion to $35 billion.

Total revenues, of course, up almost nine times, from about 4.6 billion at the start of--or the end of the last decade to end of the '80s to $40 billion at the end of the '90s, but, most importantly, net income. But our after-tax net income from recurring operations, up more than four-fold during the decade, so good strong growth in all of those measures.

On the operating side, the same thing. Our pipeline throughputs almost doubled. That included both good strong growth in our North American pipeline operation, but also, of course, making some acquisitions in other markets such as Bolivia, Brazil, Argentina, Colombia.

Retail energy, of course, we didn't even get started in that business until about 3 years ago, but last year, as you can see, we contracted $8.5 billion of business. Of course, you are going to see here in a little bit that we expect to have very strong increase in that amount again this year.

Obviously, to keep up with that growth, we also had a very significant increase in employees, particularly in the last 5 years, but moving from about 7,000 employees at the end of the '80s to almost 18,000 at the end of the '90s.

Let me say we have ended up this decade as the largest supplier of gas and electricity in North America, the largest supplier of gas and electricity in the U.K., largest supplier of power in the Scandinavian countries, and we think the most potent and, for that matter, the largest new entrant into the continental European market. So we also have some very, very valuable franchises that we are going to continue to expand as we move into the current decade.

And, of course, in response to all of that, our shareholders have had a good increase, too. If you want to take this through the current time, starting with 19--or December '89, the end of December '89, our shareholders have received a little over 1,000-percent return. That compares with about a 200-percent return for the pipeline group, about 100--or about a 40-percent return for the expiration production index.

And you keep in mind, at the end of the last--of the '80s, we got 80 percent of our net income out of our pipeline group. We got about 20 percent, the remaining 20 percent out of the expiration production business and the gas liquids business. Of course, you can see by these indexes, those businesses did not do that well throughout the '90s. Of course, we even did better than the S&P 500, about a 424-percent return.

So I think transforming the company from a company largely dependent on regulated pipelines to one today that is largely dependent on fast-growing, high-return energy businesses, our wholesale business, our retail business, as well as our new broadband business, we have put the company in a position where not only have we had good returns for the last decade, but I think the prospect of even stronger returns this decade, a very high-growth potential throughout the company.

And, of course, we have been recognized for some of the changes that have occurred in the company repeatedly. In the case of Fortunes Most Admired Company Survey that they do annually, which just came out a couple--3 weeks ago--but, again, we were recognized as the most innovative company in America for the fifth year in a row. That is one of the eight categories by which they measure companies or try to measure them and then rank them, but we also came out number one in quality of management and number two in employee talent. And I am here to tell you that that number two in employee talent is a lot more important than that number one in management quality because it is our employees throughout the world that, indeed, differentiate Enron from every other company not just in our industry, but increasingly from companies of all types.

When you break one or two out of all American companies in categories like this, you, indeed, have made quite a mark on other industries, other companies in the

U.S., in particular.

Of course, the Energy Commodity Derivatives House of the Year by Risk Management magazine just recently, this past month, and, of course, one of the 100 best companies to work for in America, as we moved up from the seventy-third position the year before last to twenty-fourth this past year. So we are getting some good recognition for the kind of performance that we are able to deliver.

Now, with that, I think Jeff is going to come up first and introduce the operating highlights of Global Strategy, and then he and Joe both were going to share that presentation, if he doesn't lose his mind.

MR. SKILLING: This high-tech stuff, you know, it's really hard. I'm a gas guy.

But, anyway, I just wanted to introduce, really, the rest of the program from here. So we are going to go through the operating highlights and global strategies for each of our businesses. So I am going to turn it over to Joe in just a minute, but just let me remind you how we are presenting this to the outside world.

We are essentially breaking the business and communicating with the outside world about four separate operating activities within Enron. There is our transportation and distribution business. Those are our regulated utilities. So that is the gas pipeline group in North America and Portland General.

Then we have our wholesale business, and, as you know, the wholesale business has really been the locomotive for our growth in earnings and sales for, really, the last decade. And the numbers coming out of that business, which I will guess the vast majority of the people in this room are involved with, have just been phenomenal. I mean just phenomenal for the last decade, and we expect to see continued growth in that business in the future.

The third energy business is our retail business. We have turned the corner in the retail business. I always hated it when someone would write about Enron and they talk about us losing money in our retail business. Well, in the fourth quarter of last year, we went 7 million positive in the retail business. Now, that's up from a $26-million loss in an equivalent period in 1998. So that is a $33-million swing, quarter over quarter, and I think that gives you a sense for the sort of operating leverage that we have got in that business moving forward. So I think we have got just tremendous prospects in the retial business moving forward, and they have turned the corner and they are rocking and rolling right now and building that business for the future.

Then the last business is our new business which is the broadband business. I will spend a little time going into that business. We have a very, very unique strategy in our broadband business, and this unique strategy is center of the fairway for Enron. Anyone from the wholesale business, anyone from EES would understand exactly what we are doing in this business. We are positioning ourselves in a way that will be almost identical to the position that we have in the wholesale business in natural gas and electricity. So it is a very, very different strategy from what other people are pursuing, but it is a very strong strategy.

And you can tell from the response in the stock market that they like the strategy. It makes sense. Now all we have to do is execute, you know, the simple part.

So, anyway, with that, I will turn it over to Joe to go through transportation, distribution, and wholesale. I will come back and spend just a couple of minutes on the retail business, and then I will walk you through this broadband, the communications business, so you can get a sense of what we are trying to do there.

Joseph?

MR. SUTTON: Well, good afternoon. Good afternoon.

PARTICIPANTS: Good afternoon.

MR. SUTTON: Okay. For all of you out there in Enron Land, good afternoon to you, too, or good morning or good night or whatever it might be.

First of all, I should probably tell you what this looks like here. We are in a studio with--actually, it's part of the new Enron Building, which is a phenomenal building here in London. We've got a chance to see and we are going to actually open our christening tomorrow night, but we've got the Enron-Europe employees here. We have all of our East speak [?] people over here ready for questions, and, hopefully, all of you out there are looking at your laptop computers just enjoying the heck out of this.

Let me start. I want to just talk for a couple of minutes about some of our businesses; first, our transportation and distribution business. As Ken said, Portland General is being sold. Hopefully, we will have that closed by the fall of this year.

This map highlights our pipeline business, which has been the mainstay of our business for a long time, and it continues to perform quite well for Enron.

As you can see, volumes are up, and we have several expansions in place as part of the pipeline infrastructure grows.

In the porta [ph] gas transmission, we expect phase four to start the second quarter of this year and then move into phase five by the end of next year, and phase six is now under evaluation. So there is a lot of growth in the porta system.

Northern Border, our Project 2000, an estimated cost of $95 million, we will increase our capacity there and form a direct link between the Canadian supplies and those of northern Indiana.

Of course, the Trans-Western expansion, which should be in service by May of 2000, will allow us to increase the capacity to California by about 140 million cubic feet a day. So we have got real expansion in our pipeline business. Things are going quite well as we go forward.

I will talk now about the wholesale energy, which becomes a very large part of our business at Enron, probably the largest in terms of earnings over the past several years.

I want to go back one. Can I go back on this one?

Why don't we do that. Oh, sorry. Huh? Which one? This one here? Okay. You are going to do it for me? Okay. Go back.

I can tell you a joke while we're waiting, if you like.

Okay. That's it. Good.

Okay. I think this--this chart certainly highlights the continued growth of our wholesale business in both physical volumes in power and gas. As you can see, the growth and volume is by--commodity and region is certainly noteworthy. We have increased over time in power just tremendously and a steady growth in gas.

When you look at it in terms of region, you see a large growth in our European volumes over time.

Enron actually increased deliveries during 1999 with over 19 percent from 1998, which shows real growth in this business, both the U.S. and in Europe.

This map is the map I really like to show, which is sort of the dot map, and I guess our goal is to have the entire United States covered by dots eventually, hopefully smaller dots, but if you look at this map here, what it highlights is the expansion and the magnitude of our network in North America from an energy side.

We are certainly the leading provider of energy in North America, the largest market of both gas and electricity. We have an unparalleled network, and we have expanded our product offerings which you see here.

I think what is not shown here, which I will talk about in a few minutes, is how we--well, we are expanding our network capability through our e-commerce offerings, which will be the way of the future.

We have done similar things in Europe, and for those of you, of course, most of the audience who work in Europe can be very proud of this. I think Europe certainly rivals the United States in terms of--you know, the dot map is concerned, but there has been extreme growth in the last 2 years in Europe.

We have excellent physical access to our key markets, and we have developed a pretty fully integrated approach to these markets, finding different ways to extract value throughout the Enron value chain as we develop Europe.

This chart highlights the volume and transaction growth in Europe, and you can see growth in gas, but absolutely phenomenal growth in electricity.

The last box up here, if you focus on the yellow part of it, it shows the number of transactions we had in

1998. That is 424 transactions, if you take that little yellow piece out of there. The yellow piece last year was 8,800 transactions.

And I might add as a result of Enron Online, which I will talk about soon, those transactions have increased even more significantly in the earlier part of this year. So, of course, with more transactions, we have more volume and hopefully more margin.

Enron Online is a tool that we rolled out November 19th **[29th]** of 1999. This is Enron's business-to-business transaction venue on using an e-commerce system. It is free of charge to the people that use it. We have put it on most of our customers' desks, and as a result, volumes have increased. I mean volumes and transactions have increased significantly.

I was telling Ken and Jeff before I came in, I may be a little off on this number, but I think it is safe to say that we are right now between 11.5--correction--10.5- and $11 billion transactions on this Internet by this time this year. So that is about 3 months worth of transactions, 3 to 3-1/2 months.

When you think about that, that makes us the largest, I think, from a transaction--from a dollar amount, the largest transactor on the Internet in the world in only 3-1/2 months, and the growth here, it hasn't even started. We expect to see just a large number in increase of our transactions and volumes this year as a result of Enron Online.

This was an internally developed process by a group of Enron employees putting this together. It wasn't a big huge project, but we have hired people coming from outside. It was done inside of our company, and it just shows--goes to show what Enron employees can do. A super job here.

This shows Enron Online versus the normal channels we would use to transact business. You can see that the volume in transactions now make up a large part of our normal transaction pool, and those pie wedges will probably be growing over time.

I have to wait 8 seconds here while they bring the next chart up. So I will just kind of talk for a minute about how great this building is here in London while those 8 seconds are passing.

Is it okay? Okay, good.

I want to just talk for a minute now about our emerging market business because I think it is important to point out the very strong positions we have there as well.

This chart highlights the Southern Cone part of our business. Of course, you have seen in the past our unique asset position there. What we are working on now in this region, of course, is trying to grow this into more of a merchant position. So we take value-added aspects from our asset position.

I think probably everybody realizes without a doubt, we have the best position of anybody in the Southern Cone in both gas transportation, gas distribution, and power distribution and generation.

But, more importantly, we have put good people in these businesses in the Southern Cone from the local work force to expand our capability there. That is what we have done in the U.K. and other places around the world.

I want to highlight for a minute the importance of the Enron Caribbean region also to our business. Here, there is a strategy we have been following for quite some time in supply and demand. There is no indigenous energy supply right now in Central America. There is a large amount of energy in Northern South America. So, if you can match those two up, it would seem reasonable to expect that you would be able to have a market advantage in the Central

American markets. That is what we are working toward now using both LNG from Venezuela and potential pipeline gas from Colombia to Panama.

I will also just talk for a second about India. We are a household word in India, and that is largely due to our great work force in India. This chart shows a picture of the double **[Dabhol]** phase two powerplant. As you know, we got double **[Dabhol]** phase one, started early last year, and now we are completing double **[Dabhol]** phase two, which will be done by the end of next year. This will make this the largest powerplant, IPP powerplant in the world, and it has enabled us to access other markets in India, gas markets and even the telecommunications market in India. So it has been a great foothold there.

With that, I will pass it back to Jeff who will talk to you a little bit about our retail energy business.

MR. SKILLING: Thanks, Joe.

Just continuing on with a summary of the businesses, this shows you how well we have been doing in contracting new energy services in EES. Just even to go back a little further in time, in 1996, we did zero business. Zero. In 1997, we did $1.2 billion; '98, 3.8. 1999, we did 8.5, and we have a target for next year of $16 billion. And I have been assured by the people that count, which are the people who actually do the business, that that is absolutely sandbagging on their part. And the number will clearly exceed this. We will probably come in at 25-, $30 billion.

Right, Dan?

[Laughter.]

MR. SKILLING: But let me just tell you the numbers that go along with this, the earnings numbers that go along with this.

In 1998, in EES, we invested, meaning that we lost, $160 million in the business. 1999, we lost $96 million, and as I said, we want earnings positive in the fourth quarter. The target for the year 2000 is a $75-million-plus, and we will make that. We will hit that number. So it gives you some sense for the kind of operating leverage, but it says something about how Enron builds these businesses, just like what we did in Europe.

We made some significant investments to get in, in a big way, and that's people, that's systems, that's locations, facilities, and then we go out and we sell. And then once that line crosses, you get a lot of upside, and that's kind of the way Enron does business, but this is a real success story for the company. You can all be very proud for what has been accomplished there.

The next challenge in this business is going to be execution. The stuff sells. Now we have to actually get out there and do something for the customers.

We've spent a lot of time over the last couple of years putting in place an execution capability. This map shows customer locations that overlay sites that we have for actually executing the business.

As you can see, right now, this is a map of the United States. We are starting business now in Europe. We have done our first couple of contracts in EES in Europe. I would expect that we will have a map like this for Europe next year, and we want to add onto that. We want to have the same kind of market position.

We have a great head start in this business. In North America, there were really only two competitors. One was Duke Energy. The other was PG&E. Duke is laying people off in this business right now, and PG&E announced last week that they are selling the business. So we are in great shape. This is going to be a strong, strong business for Enron, and then speaking to you all here from London, you will be seeing a lot more activity here in Europe as this business builds over the next couple of years, but a great success story. Just keep up the good work.

In fact, Dan Lepp [ph] is here. Dan runs the execution side for EES, and I'd imagine you're working on getting the stuff in place over here. So that's great. A tremendous opportunity. So that's the retail business.

Let me move on for just a minute to the broadband services. I've got a real short presentation on this, but I want to give you just the guts of what we are trying to do here, and then we can go into more detail later. We've got some pretty good stuff coming out of the analyst presentation that goes into a lot of detail about how this business is going to work, but let me just give you a quick overview and give you a sense of what the business is.

Let me start off first by saying that we are targeting a very specific portion of the bandwidth market, and that's the very high bandwidth application market. We call these the bandwidth hog applications, but these are applications like video streaming or large file transfer that just consume enormous quantities of bandwidth.

This is the market that is growing. In fact, today, it is still a very small market. In fact, it is smaller than the voice market, the voice and text market, but this is the market that is going to be booming over the next several years.

For those of you who have not really looked at this, I am sure most of you when you got your modems on in your homes, what you found is that text works pretty well across the existing system. If you try to get video--in fact, I will be very interested to see how all of our systems are handling this video around the world--it gets much, much tougher because the amount of data that's transfered is a hundred times the amount of data that is being transferred with text. That is the market that Enron is focusing on.

To do that, we are building a business that's got three main components. The first component is we need to put in place a very sophisticated network that allows us to provide bandwidth service to our customers. So our first objective is to deploy the most open, efficient network with broad connectivity, and for all of you in the wholesale business, you know exactly what we are talking about here. We not only want to use our own assets, our own network, we want to connect and switch into and out of other people's networks, so we have the same access to the grid that we've got in gas and electricity in North American and in Europe.

So that's the game plan. That involves four things, which we are actively pursuing right now.

The first one is to have a fiber network in place. Again, for the people in London and Europe, we should have an interconnect done to the U.K. and then building into the continent within the next couple of months, but it is a fiber network of either our own fiber that we have constructed or laid around the country in North America and contracted fiber to get into places like Europe, like Asia, where we can get access to other people's fiber that's already in place, so that we can move our broadband data across other people's networks.

The first one is fiber. Second one are [sic] servers. We are putting in enormous server complexes at various locations in the grid. This allows us to move huge amounts of data to companies and to users. So it is kind of the on-ramp and the off-ramp of the fiber network.

Then pooling points, pooling points are switches. They are an interconnect location just like in a gas grid or an interconnect location just like in a power grid. They are places that we can switch our content and our data onto other people's networks on a real-time basis.

Then, finally, software, which is key. We've got some very sophisticated software that allows us to manage the movement across our own network and other people's networks effectively, so that we can keep control of the quality of the product that is going to the customer. So that is the first piece of it.

Once we have that in place, that is essentially the core capability in this business. Then we have two objectives. The first one which shows up on the left side of the slide is we want to be the world's largest buyer and seller of bandwidth, in the same way that we're the world's largest buyer and seller of electricity and natural gas in North American and the way we are going to be the world's largest buyer and seller of gas and electricity in Europe. We want to be the world's largest buyer and seller of bandwidth around the world.

Then, on the right side of this chart, in addition to that, we are providing some specific services to customers, and we want to be the world's largest provider of premium broadband delivery services.

Now, you might look at this. I'm a gas guy. We're all energy people, at least most of the people in this room. You might say, "Well, why would Enron do this instead of someone else?" I guarantee you, we have got some very,

very strong facilities and some very strong software. I think this is achievable. Not only is it achievable, I think we are well on our way to achieving these objectives. So it is looking very, very strong. I am very pleased with what I have seen so far.

I will just give you a sense in North America what it looks like. This is what the fiber network looks like, and then we are in the process, as I mentioned, of connecting into Europe and into the Pacific Rim, but at the end of 1999, we had about 13,000 miles of fiber in place.

This chart shows 15,000 by the end of the year 2000. That is probably, likely to be north of 20,000 by the end of this year.

At this point, we are only doing a few more bills. We are getting access to other people's fiber to beef up this number as time goes on because there is a lot of capacity that is going in right now when we can get access to that capacity.

We are putting these on-ramps and off-ramps to the network. These are servers. At the end of 1999, we had 222 server complexes deployed around North America.

For those of you who get to Houston--I would encourage you if you have a chance--we have a facility now that is up on North Shepherd Boulevard in Houston, and it is a gigantic warehouse where we are putting together these server complexes before they get shipped out. I would encourage you to stop over there and see it. It is really interesting, and this is very sophisticated equipment, very high-capacity equipment, and we basically have an assembly operation that is putting this stuff together and shoving it out the door to get it installed at various locations around the world. So we have got on-ramps and off-ramps to the fiber network, but this will be a very powerful capability once these servers are installed.

But then key to this is what was key in the gas and electric business. We need to also develop something called pooling points. There are two kinds of pooling points that we are putting in place around the world.

The first type, we are calling private pooling points, and those are switches that we have proprietary control over. Now, you might think that the network for fiber would be interconnected and switchable. It turns out, it's not. If you want to provision a circuit today, that can take anywhere from 2 weeks to 3 months.

With this switching equipment, we will be able to provide the same service in less than a second. So this is going to provide a significant improvement on the interconnectivity of the network, provide us with a capability to provide capacity to people on demand quickly.

Now, these pooling points will be, as I said, private and public. There will be three--at least three public pooling points, one in New York and Los Angeles. They are already in place. We expect to put one in place in London.

The ones in New York and Los Angeles form the basis of a contract that we have launched now, which is a standardized bandwidth contract between New York and Los Angeles that we are now trading. The activity has not been that big yet, but this is the kind of contract that I think will become the standard for the industry and will start looking like a gas contract or an electric contract over time that we will be able to buy and sell, give people price discovery and the ability to get capacity quickly and switch into that capacity quickly.

But we are very quickly putting this equipment out. We expect by the end of this year--this says 13. At the end of this year, we will probably have 25 of these pooling points in place. Each of these are $2-million Lucent facilities. They are big, big pieces of equipment, but provides a service that the industry just doesn't have today.

Now, once all that is in place--that shows the other servers. Oh, here it goes. This is cool. Watch this.

Then once all this stuff is in place, then everything can start to interconnect.

Man, are these computers slow. What's the deal?

[Laughter.]

MR. SKILLING: Pardon? It's 50 instead of 60? Is that it?

Okay. But, anyway, once all of this equipment is in place, then the next piece of this is software, and we have developed some very sophisticated software. We bought a company called Modulus [ph]. Now, Modulus had some software that was developed jointly between Rice University and NASA to control, as a matter of fact, robotics for like the Space Station, that sort of thing, but it's a very complex, unique software which allows us to control movements across the entire network, but allows us to keep track of everything, even if it is moving on somebody else's network.

So what we will have when all of this is done is we will have the ability. If you want bandwidth, we can give you the bandwidth, whether it is on our network or somebody else's network, instantaneously. You will have it available for as long as you want it, and when you don't want it anymore, you don't need it. You don't have to pay for it, which will be a totally different service than is being provided by the industry today.

So, from there, we want to build our position as a merchant for bandwidth, just like gas and electricity. We are putting bandwidth management capabilities in place, and these are in many cases outsourcing-type structures. We will outsource bandwidth for people.

Trading. Tom Gross has got a trading activity up and running on the forty-fourth floor in Houston. We've got people there that look just like the trading floor here, starting to put together these packages, talking to counterparties, getting the business done. And we are putting together a finance capability that is analogous to the finance capability that we developed in ECT back in the old days to finance producers.

We have set some targets with the analysts. This is going to be a unit of measure or unit of volume that will be similar to the volume measures that we use in gas and electricity, and this is what we have targeted.

These are DS-3 months. A DS-3 is a type of circuit. A month means that that circuit is utilized for a full month. So that is the unit of throughput that we are going to be targeting, and as you can see, we are expecting some significant growth in this business over the next couple of years.

If we hit these numbers, if we hit these numbers, this portion of the business, you use standard metrics. Look at other companies in the business. This portion of the business will be worth about 12- to $13 billion in Enron stock, if we hit these numbers, and if we hit these numbers, we will have about a 15-percent share of the intermediation market for bandwidth, which compares to the 15 to 20 percent that we have in gas and electricity. So these are reasonable numbers if we make it work, and I am assuming we will make it work.

Then the next piece, as I mentioned, is also providing premium broadband delivery services. We are going to be tracking something here which is similar to the T statistic, that contract value that I showed you in the retail business, and these are the targets that we have in terms of millions of dollars of contracted broadband throughput.

And I can tell you for the year 2000, we have a target of $160 million. I think we willi probably end this month, February, with about 115 or 120 of that done. Now, that is the easiest, 115 to 120, but we are hitting on these numbers. If we hit these numbers in the future, this business is worth another $13 billion to us, at least, if we just hit these numbers with these types of services and these types of targets.

So, overall, it is a huge market. We have a very, very unique strategy to pursue in this market. The customers love it. They love what we are doing in this business, and I would expect to see some significant growth in this business as some goes on.

So--and I'm sorry for going through that so quickly. There is an awful lot that goes behind that. We maybe can get to some of it during the Q&A session, but it is a very exciting business. It's part of Enron. It fits with what we do, and it is something that all of us would understand from what we do in the gas and electricity business.

So, in conclusion, we've got some very unique businesses in this company. I think we need to be thinking about these businesses as time goes on as knowledge-based networks supported by superior assets. We need to be thinking about the intellectual content of this because that's where we add value. That is where we make money for our shareholders. That is where we get a 50 multiple on our earnings number.

We have large scale and extensive scope in every market we go into, and if we can't get that large scale and scope, it is probably not a market that we want to participate in. We need to get in big. We need to be in a position where we are a strong player in that business, and that's how we get better and survive.

We have innovative products and customized solutions. As an organization, I think we can--we can say that we're pretty innovative, but we have some unique businesses.

We continue to gain substantial market share in rapidly growing deregulated markets worldwide, and we are committed to providing substantially increased value to our shareholders. So the business, the operating highlights of the business, the global strategy, the company is in great shape. We are executing against the plan, the way we should be executing against the plan. The company is doing really well.

So, with that, I will turn it over to Joe again to talk some about the Excellence Through Communications results.

MR. SUTTON: One thing we accomplished last year that I think is a significant accomplishment of the company is we were able to put together a product that allowed us to go out to our employee, our work force and get answers to questions on work force issues. The most important thing is a lot of us get feedback within about 2 weeks of doing the survey.

This Excellence Through Communications Survey was done twice last year. We did it about midyear. We did it in the fall. We got the results back in the fall, and they were pretty much the same as midyear. Not much changed there.

What we want to do, though, is look at these results and see if we can't attack some of the issues, [inaudible] on those things we are doing well, and use this tool as a way to get feedback to the management of things we can do in our company to make our company even a better place to work.

This was the purpose of the survey. Naturally, it is to understand the factors of getting a way of people doing their personal best. We had about 10,000 employees participate--or invited to participate in the November-December time frame. About 5,000 actually did. We've got results back from.

We would like to increase the response rate in the future, and, really, to all of you employees listening to this, it is important you give your feedback on your company. This is your company, and we want to know from these surveys what you think we can do to make the company better. So don't hesitate to respond. It takes about 10 minutes. It's very quick. The results get back to us, as you can see, in a very fast fashion as well.

As you can see here, we did this, an employee survey, about 3 years ago. In that survey, 3 years ago, we didn't score so well in many of these categories.

In the survey last year, these were many of the strengths we had in the company, and these numbers are very high numbers. Any time you are above 60 percent in one of these surveys, it is a very high number and a very favorable response.

I think probably the two I am most proud of here are on the right-hand side of the chart, which talks about people would recommend Enron is a good place to work. Sixty-seven percent of the employees that filled out the survey felt that it would be a place--a good place for people to work, and the last point there, it talks about the commitment of our people at a 61-percent rate. Those two are, in my opinion, pretty critical to our ongoing success as a company.

But all of these, we are very happy with. So I think the bottom line here is we showed great improvement from the survey 3 years ago to the surveys done last year in most categories.

There were some areas that we didn't do so well in, and we've decided to attack that as an issue this year. Most of these areas--and they are shown here--revolve around communications. As you know, that is one of our core values, and I think it is important that we make sure if we are going to grow the way Jeff and Ken and I have laid out that we increase and make sure people understand they have the ability to communicate and the obligation to communicate across the company.

As you can see, these results weren't quite so good. So one of our goals this year, of course, is to improve in this area.

The way we have decided to do that is to take the communications value. I am chairman of the Vision of Values Task Force in the company--and take the communication value and put a campaign together inside Enron to ensure that we communicate better, both internally and externally as a company and as an employee base.

So we are going to do that in three ways. Now, we are going to do in many ways, and, hopefully, all of you will participate and help us do it, you know, much more effectively, but we are going to focus on three--three things to get this done.

First of all, for vice presidents and above, we are going to stress the executive communication and influence training that we put in place about 2 years ago. We are going to make it a requirement for all vice presidents and above to attend this training this year. It's a 2-day training session, and we find out that it teaches you how to communicate down and throughout the company. So it is important that we get that training to all of our more senior leaders.

We are also going to enhance that training further by providing online training for other members of the leadership in Enron. We are developing those programs now.

They will be out sometime midyear which will allow you to access online training programs, which will help you enhance your communication skills.

The third thing--or actually the second thing--the first two go together, but the third thing we are going to work on is we are going to work very hard on trying to get people to realize that they have an obligation to dissent in this company. Something Jeff and Ken have insisted upon is that we have people--and our strength is we have employees--that are able to give input. They're not afraid to give ideas, concepts, new creative approaches to things.

We'll carry that one step further. You have an obligation to this end. It's your company. If you see something wrong in the company, you've got to take action to fix it, take action--or if you have a good idea, you have to take action to input your idea.

We are doing this through a--we sort of came up with something here called participation and dissent sessions which allows companies to have what we call P&D session where people get together and actually take an idea and war back and forth on it, you know, game back and forth on it. I think the--you know, the idea here is to use these sessions to enhance an idea and allow people to have input.

Of course, last, we are going to improve the tools we have for communication throughout the entire company. We have a whole list of things we do in Enron to communicate. Some are effective; some are not effective. The idea is to catalog these and bring these into a--in a way that they're all effective, hopefully. Communication.

So bottom line here is we want and expect you to help us communicate better, and we hope that the results of the surveys we use this year will show an improvement in those areas where we are weak. So we are going to attack the communications value.

Of course, everything you have heard here today is great. I mean, the company is doing fantastically well. Our stock price is up. We've got new businesses. We've got people performing well, but all of that is based on a foundation of fundamental core values. I think Enron's values are one of the reasons that we have been able to be as successful as we have. So don't forget those values, and make sure that as you go out and embark on your new businesses, we are stressing respect, excellence, integrity, with a focus this year on communication.

[Side 2 of Tape No. 833 begins.]

So, with that, that ends our briefing for today, and now Ken and Jeff and I will be able to answer your questions from around the world.

[End of audiotape recording.]

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